

IRS ISSUES SPRING 2000 STATISTICS OF INCOME BULLETIN

WASHINGTON--According to preliminary statistics for Tax Year 1998 released today by the Internal Revenue Service, the adjusted gross income (AGI) reported on the nation's 124.7 million income tax returns for that year increased 8.4 percent over 1997 to a new record high of \$5,369.3 billion. Capital gains of \$424.3 billion showed the largest percentage increase, 22 percent, and were reported by nearly 21 million taxpayers. Statutory adjustments in computing AGI included the new deduction for student loan interest representing \$0.7 billion on 3.8 million returns.

Taxable income, the base on which regular tax was computed, increased 12 percent to \$3,758.9 billion for 1998. As a result, total income tax after credits also increased seven percent to \$783.9 billion. This total included the alternative minimum tax that grew to \$4.4 billion, 40 percent more than for 1997, and was reported on 828,000 returns.

Among the credits against income tax were two that were new, the child credit, \$15.2 billion on 24.9 million returns, and the education credit, \$3.4 billion on 4.7 million returns. However, the largest credit remained the earned income credit allowed certain low-income recipients. This credit was reported on 19.8 million returns and totaled \$31.8 billion. All these data are from the Spring 2000 issue of the quarterly *Statistics of Income Bulletin*, just published.

The Bulletin includes an in-depth analysis of individual income tax returns filed for 1997. It reports that of the 122.4 million returns filed for that year, 76 percent showed an income tax liability. The average tax rate on these returns was 15.3 percent of AGI, the highest in recent years.

Of the regular statutory rates applicable for 1997, the 15-percent rate generated 19 percent of the tax. The 28-percent rate generated 26 percent of the tax. The 31-percent rate generated 11 percent of the tax. The 36-percent rate generated nine percent of the tax. Finally, the highest 39.6-percent rate generated 26 percent of the tax. The remaining nine percent was generated by the special rates on long-term capital gains.

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The top five percent of taxpayers for 1997 reported almost 32 percent of the total AGI and 52 percent of the total individual income tax. The top one percent, alone, reported 17 percent of the income and 33 percent of the tax. To be included among the top five percent for 1997, a tax return had to show an AGI of at least \$108,048.

Another article shows that, for 1997, S corporations accounted for over half, 52 percent, of all corporation income tax returns for the first time. In contrast, at the time the Tax Reform Act of 1986 was enacted, the percentage was only 24. S corporations are generally small qualifying corporations electing to be taxed through shareholders. They reported net income, less deficit, of \$153.1 billion for 1997, up 22 percent over 1996, although this was only 16 percent of the total profits of all corporations.

Another Bulletin article shows that there were almost 4,400 Foreign Sales Corporations (FSC's) for 1996, an increase of 42 percent over 1992 when statistics were last compiled. FSC's were intended to promote the export of products and services of their shareholders that were mostly U.S. corporations, by exempting part of their foreign trade income from U.S. income tax.

For 1996, about 89 percent of these corporations exported manufactured products, while 11 percent exported nonmanufactured products, as well as services. Principal manufactured products included transportation equipment, machinery and equipment, and chemicals and allied products.

Total gross receipts of FSC's and their related suppliers were \$285.9 billion for 1996, up from \$152.3 billion for 1992. FSC's reported \$32.8 billion of total income after adjustments. Of this amount, \$12.0 billion, before deductions, was subject to U.S. income tax. This tax totaled \$1.7 billion. The companies then distributed \$10.2 billion to their parent shareholders, who were usually corporations. FSC's incorporated in the U.S. Virgin Islands and Barbados predominated and accounted for most of the gross receipts of FSC's and their related suppliers.

Another article notes that, for 1996, there were 40,600 tax-exempt organizations engaged in non-mission-related business activities. They generated \$7.3 billion of gross unrelated business income, 16 percent more than for 1995. Almost half of these organizations reported a taxable profit that totaled \$1.2 billion. The remainder reported losses of \$2.0 billion. Sixty-five

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percent of the tax-exempt organizations reporting a taxable profit were corporations and 35 percent were trusts. The income tax reported by those with a profit was \$372.6 million, an increase of 35 percent over 1995.

The Bulletin's final article, on excise taxes, focuses on the telephone tax. This tax, about \$5.2 billion in Fiscal Year 1999, accounted for more than seven percent of all excise tax receipts.

The Spring issue also presents the annual individual income tax returns statistics by state, this time for returns filed for Tax Year 1998. California, New York and Texas continued to dominate. California was the leader with 14.2 million returns, \$662.2 billion in AGI, and \$99.0 billion in income tax.

The *Bulletin* also includes historical data on income, deductions and tax reported on returns filed by individuals, corporations and unincorporated businesses, with selected data presented for estates. Statistics are also presented on tax collections, including excise taxes by type, and refunds for recent years.

The *Statistics of Income Bulletin* is available from the Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, PA 15250-7954. The annual subscription rate is \$35, \$43.75 foreign. Single issues cost \$22, \$27.50 foreign. The *Bulletin's* individual articles – but not the historical data tables – are also available through the Tax Stats section of the IRS Web site, www.irs.gov.

For more information about these data, write the Director, Statistics of Income (SOI) Division, OP:RS:S, Internal Revenue Service, P.O. Box 2608, Washington, DC 20013-2608. You may also leave an inquiry at the Tax Stats section of the IRS Web site, or contact the SOI statistical information services office at (202) 874-0410, or by fax at (202) 874-0964.

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Editor's note: See attached *Statistics of Income Bulletin* order form.